



Department of State

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E.O. 12356:DECL: OADR  
TAGS: EAGR, PREL, IZ  
SUBJECT: GSM INQUIRY - BACKGROUND INFORMATION FOR IRAQ

1. C - ENTIRE TEXT

2. IRAQ HAS REQUESTED DETAILED INFORMATION ON THE  
GSM-RELATED ISSUES WHICH THE USG HAS RAISED.

3. ACTION REQUESTED: THE FOLLOWING COMMUNICATION (PARA  
4), PREPARED BY USDA, PROVIDES REQUESTED DETAILS. PLEASE  
PROVIDE THE TEXT TO APPROPRIATE GOI OFFICIALS AS SOON AS  
POSSIBLE. USDA WILL ALSO PROVIDE A COPY TO IRAQI  
AMBASSADOR AL-MASHAT.

4. BEGIN TEXT: THE U.S. DEPARTMENT OF AGRICULTURE  
(USDA), AND THE COMMODITY CREDIT CORPORATION (USDA/CCC)  
HAVE EXPRESSED INTEREST IN A NUMBER OF ISSUES REGARDING  
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PAST AND CURRENT CONDUCT WITH RESPECT TO THE EXPORT

IS/FPC/CDR Date: 7/12/94

DEPARTMENT OF STATE	MR Cases Only	EO Citations	TS authority to:
RELEASE ( ) DECLASSIFY	( ) CLASSIFY as	( ) S or ( ) C OADR	( ) S or ( ) C OADR
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CREDIT GUARANTEE PROGRAM (GSM-102) FOR IRAQ. THE GOVERNMENT OF IRAQ HAS ASKED FOR DETAILS ON THE NATURE OF THE PROBLEMS IN WHICH USDA AND USDA/CCC ARE INTERESTED.

IN ADDITION TO GENERAL QUESTIONS REGARDING THE CONDUCT AND OPERATIONS OF THE GSM PROGRAM, THESE ISSUES INCLUDE GSM CONTRACT PRICING, SHIPMENT, TENDERING PRACTICES, REQUESTS FOR ADDITIONAL SERVICES, AND THE IMPOSITION OF SPECIAL TAXES, AS DESCRIBED BELOW.

#### GSM CONTRACT PRICING

USDA/CCC'S REVIEW OF IRAQI GSM PURCHASES DURING THE PERIOD 1985-1987 REVEAL A PERSISTENT PATTERN OF IRAQ HAVING AGREED TO PAY PRICES FAR IN EXCESS OF PREVAILING MARKET PRICES. QUESTIONS HAVE BEEN RAISED WHY A PRUDENT AND SOPHISTICATED PURCHASER SUCH AS IRAQ WOULD BE WILLING TO PAY EXCESS PRICES; CONCERNS HAVE BEEN VOICED ABOUT THE POSSIBLE MISUSE OF SUCH EXCESS FUNDS. USDA/CCC HAS INFORMATION THAT IRAQ PAID PRICES THAT WOULD APPEAR TO BE WELL IN EXCESS OF THE MARKET FOR CORN (DOLLARS 16-20/MT), SUGAR (DOLLARS 15-35/MT), AND RICE (DOLLARS 10-20/MT). USDA/CCC NOTES THE FOLLOWING EXAMPLES:

TRANSACTION	SALE DATE	VOLUME	SALE PRICE
-	CORN		
GSM-102-54284	SEP. 1986	100,000 MT	DOLS 92/MT, FOB
GSM-102,55190	DEC. 1986	75,000 MT	DOLS 90/MT, FOB

- SUGAR

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GSM-102-10735	APR. 1986	13,000 MT	DOLS 259/MT, C&F
GSM-102-10736	APR. 1986	15,400 MT	DOLS 259/MT, C&F
GSM-102-53574	MAY 1986	15,400 MT	DOLS 230/MT, FOB
GSM-102-53760	JUL. 1986	16,649 MT	DOLS 254/MT, C&F
GSM-102-54577	SEP. 1986	13,244 MT	DOLS 228/MT, C&F
GSM-102-54978	NOV. 1986	15,400 MT	DOLS 248/MT, C&F
GSM-102-54979	NOV. 1986	14,500 MT	DOLS 253/MT, C&F
GSM-102-55245	DEC. 1986	10,800 MT	DOLS 246/MT, C&F
GSM-102-55585	FEB. 1987	11,300 MT	DOLS 281/MT, C&F

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RICE

GSM-102-53030	APR. 1986	16,500 MT	DOLS 270/MT, C&F
GSM-102-53031	APR. 1986	15,748 MT	DOLS 276/MT, C&F
GSM-102-53596	JUL. 1986	15,678 MT	DOLS 240/MT, C&F
GSM-102-54387	SEP. 1986	15,749 MT	DOLS 228/MT, FOB
GSM-102-54390	SEP. 1986	14,685 MT	DOLS 220/MT, FOB
GSM-102-54464	SEP. 1986	14,500 MT	DOLS 228/MT, FOB
GSM-102-54977	NOV. 1986	15,740 MT	DOLS 220/MT, FOB

TENDERING PRACTICES

USDA/CCC CONSIDERS IRAQ TO BE A SOPHISTICATED PURCHASER OF AGRICULTURAL COMMODITIES, WELL AWARE OF PREVAILING WORLD PRICES AND CAPABLE OF OBTAINING THOSE COMMODITIES AT FAVORABLE MARKET PRICES. USDA/CCC WISHES TO UNDERSTAND WHETHER IRAQ ENGAGED IN PRUDENT PURCHASING PRACTICES DURING THIS PERIOD, AND WHETHER THE PRICES PAID FOR THE COMMODITIES WERE AT COMPETITIVE MARKET PRICES. FOR EXAMPLE, IF COMPETITIVE BIDS WERE OBTAINED FROM OTHER EXPORTERS, USDA/CCC WOULD APPRECIATE RECEIVING FOR ITS REVIEW DOCUMENTARY EVIDENCE CONFIRMING OTHER BIDS.

SHIPMENT

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USDA/CCC'S REVIEW OF PAST GSM TRANSACTIONS UNDER THE IRAQ PROGRAM REVEALS THAT, IN GENERAL, U.S. EXPORTERS AND THEIR ASSIGNEE BANKS HAVE VERY LITTLE EVIDENCE IN THEIR FILES DOCUMENTING THE ARRIVAL OF U.S. AGRICULTURAL COMMODITIES IN IRAQ. FOR THE MOST PART, EXPORTER FILES CONTAIN OCEAN-GOING BILLS OF LADING WHICH SUBSTANTIATE THE SHIPMENT OF GOODS TO PORTS EITHER IN TURKEY OR IN JORDAN, FROM WHICH DESTINATIONS THE GOODS WERE PRESUMABLY SHIPPED OVERLAND BY TRUCK TO IRAQ. HOWEVER, VERY FEW FILES CONTAIN DOCUMENTS WHICH DEMONSTRATE CONSIGNMENT TO IRAQI OFFICIALS OR AGENTS; THERE ARE VIRTUALLY NO FILES WHICH CONTAIN OVERLAND BILLS OF LADING OR LANDING CERTIFICATES WHICH DOCUMENT THAT THE GOODS REACHED THEIR FINAL DESTINATION.

USDA/CCC BELIEVES THAT THIS ABSENCE OF DOCUMENTATION MOST PROBABLY INDICATES A LACK OF SYSTEMATIC MANAGEMENT

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CONTROLS AND PROCEDURES ON THE PART OF THE PURCHASING  
MINISTRIES. HOWEVER, BECAUSE THERE HAVE BEEN ALLEGATIONS  
IN THE PRESS, AND CONGRESSIONAL CONCERNS EXPRESSED, ABOUT  
POSSIBLE DIVERSION OF SHIPMENTS, IT IS INCUMBENT UPON  
USDA/CCC TO DETERMINE THE PROCEDURES THAT WERE FOLLOWED  
BY IRAQ IN THE PAST TO ENSURE ARRIVAL OF ALL GOODS  
SHIPPED. USDA/CCC BELIEVES THAT THERE SHOULD BE AN  
UNDERSTANDING ABOUT PROCEDURES AND CONTROLS THAT WILL BE  
FOLLOWED IN THE FUTURE.

#### AFTER SALES SERVICE

USDA/CCC HAS RECEIVED RELIABLE INFORMATION THAT, PRIOR TO  
NOVEMBER 1989, SEVERAL IRAQI MINISTRIES ROUTINELY SOUGHT  
OR REQUIRED U.S. EXPORTERS TO PROVIDE SO-CALLED QUOTE  
AFTER SALES SERVICE UNQUOTE IN CONJUNCTION WITH GSM  
SHIPMENTS. IRAQ WAS TOLD DURING NEGOTIATIONS IN 1988 THAT  
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THIS PRACTICE VIOLATED GSM REGULATIONS AND WAS ENTIRELY  
UNACCEPTABLE TO THE UNITED STATES; NONETHELESS, DESPITE  
IRAQI COMMITMENT TO DESIST FROM THIS PRACTICE, USDA/CCC  
HAS INFORMATION THAT DEMONSTRATES THAT ADDITIONAL QUOTE  
AFTER SALES SERVICE UNQUOTE REQUESTS WERE MADE DURING  
1989. IRAQ AGAIN COMMITTED TO CEASE THIS PRACTICE DURING  
DISCUSSIONS IN NOVEMBER 1989, AND USDA/CCC HAS NO  
INFORMATION AT THIS JUNCTURE THAT THERE HAVE BEEN ANY  
RECENT REQUESTS.

USDA/CCC BELIEVES THAT THE QUOTE AFTER SALES SERVICE  
UNQUOTE PRACTICE MAY HAVE BEEN ESPECIALLY PREVALENT IN  
CONTRACTS FOR PURCHASES OF TOBACCO AND WOOD PRODUCTS.  
USDA/CCC NEEDS SPECIFIC INFORMATION REGARDING ANY AFTER  
SALES SERVICE THAT WAS, IN FACT, PROVIDED IN CONJUNCTION  
WITH GSM-102 SALES TO IRAQ, AND INFORMATION ABOUT ALL  
ACTIONS TAKEN AND PROCEDURES IMPLEMENTED BY IRAQ TO  
ENSURE THAT THIS PRACTICE CEASES.

#### SPECIAL TAXES

USDA/CCC HAS RECEIVED INFORMATION THAT CERTAIN MINISTRIES  
IN IRAQ HAVE ATTEMPTED TO REQUIRE U.S. EXPORTERS TO ASSUME  
RESPONSIBILITY FOR AND PAY AN INTERNAL IRAQI QUOTE STAMP

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TAX UNQUOTE IN CONJUNCTION WITH GSM TRANSACTIONS. THIS APPEARS TO HAVE OCCURRED WITH RESPECT TO SALES OF WOOD PRODUCTS, AND MAY HAVE OCCURRED WITH OTHER PRODUCTS AS WELL. SUCH A PAYMENT WOULD BE CONSIDERED QUOTE AN ALLOWANCE UNQUOTE WITHIN THE MEANING OF THE GSM REGULATIONS, AND WOULD NOT BE PERMITTED; GSM REGULATIONS WOULD REQUIRE THAT THE VALUE OF SUCH PAYMENT BE DEDUCTED FROM THE SALE PRICE TO ARRIVE AT A NET PORT VALUE THAT COULD BE APPROVED FOR GUARANTEE.

USDA/CCC DESIRES SPECIFIC INFORMATION ABOUT ALL REQUESTS

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THAT HAVE BEEN MADE TO U.S. EXPORTERS TO PAY A STAMP TAX, OR ANY OTHER SPECIAL TAX, AND ALL INSTANCES IN WHICH SUCH PAYMENT WAS AGREED TO. USDA/CCC ALSO WISHES TO RECEIVE A COMMITMENT FROM IRAQ THAT IT WILL CEASE THIS PRACTICE, AND TO LEARN ABOUT THE SPECIFIC ACTIONS AND PROCEDURES IRAQ WILL IMPLEMENT TO INSURE THIS PRACTICE DOES NOT TAKE PLACE.

CONCLUSION

THE UNITED STATES TRUSTS THAT THIS COMMUNICATION CONTAINS SUFFICIENT DETAIL ABOUT THE CONCERNS OF USDA/CCC. END TEXT. BAKER

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